



STATE OF NEW MEXICO
Educational Retirement Board

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TO: Kim Bannerman, Legislative Council Service
FROM: Chris Schatzman, General Counsel
CC: Jan Goodwin, Executive Director
DATE: September 8, 2010

RE: Effect of delaying scheduled increase of ERB employer contributions

This memo responds to your request for information regarding the impact on the Educational Retirement Fund (the "Fund") of further postponing the increase in ERB employer contributions to 13.9% scheduled to occur July 1, 2012 (start of FY 13) pursuant to Section 22-11-21, NMSA 1978. The increase had been scheduled to occur on July 1, 2011 (start of FY 12) but was delayed by the 2010 Legislature. Your request for information was not tied to a specific proposal to further delay the effective date of the increase, but was a general request for information regarding the effect of an additional delay.

Because a proposal for a specific period of further delay to the scheduled increase was not provided, the ERB was not able to have its actuaries run calculations show the effect of a further delay. The attached charts, which were prepared by Gabriel, Roeder, Smith & Co. ("GRS"), ERB's outside actuaries, however, do show the negative impact on the Fund of delaying the scheduled increase in employers' contributions from July 1, 2011 to July 1, 2013. The effects are shown on the second and third charts. The charts are based on the actual ERB's 18.6% gross market return for FY 10 minus expenses. The portions of the charts highlighted in yellow are discussed below. Any further delay of the scheduled increase of the employer contributions to 13.9% would only have a greater adverse impact on the Fund as the negative effects of the delay would be compounded.

As shown under the Funded Ratio (column 11), the one year delay from FY 12 to FY 13 caused the funded ratio in FY 13 to decrease from 58% to 57.8%. The negative effect on the funded ratio increases over the years from 0.2% to 0.7%. The effect of delaying the increase in employer contributions also is reflected in Funding Period (Years) (column 13). As shown in the third chart, delaying the employer contribution increase to July 1, 2013 results in the period in which the UAAL is amortized being an infinite number of years in FYs 12 and 13 and 95 years in FY 14, whereas on the second chart the amortization period are 65.5, 68.4 and 88.5 years. The UAAL amortization period continues to be effected for the entire 30 year period covered by the charts, with it being 0.7 years greater on the third chart in FY 40 than on the second chart. The effects of delaying the employer contribution increase also are shown reflected when comparisons are made of the columns 9 (Actuarial Value of Assets), 10 (Unfunded Actuarial Accrued Liability) (the "UAAL"), 12 (GASB Annual Required Contribution), 14 (Market Value of Assets) and 15 (Funded Ratio using MVA) on the two charts.

Kim Bannerman, Legislative Council Service

September 8, 2010

RE: Effect of delaying scheduled increase of ERB contributions

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While the attached charts do not show the effect of further delays in the scheduled employer contribution increase to 13.9%, as noted above such charts would reflect even greater negative effects on the Fund because of the compounding effects of further delays. If a specific proposal is made, the ERB would be glad to have our actuary do the calculations necessary to show the impact of further delays

While both delaying the increase of employer contributions and shifting contributions from employers to members have been tools to help the State to balance the budget, their continued use impacts the Fund negatively. Further delays in increasing the employer contribution to 13.9% are counter to the State's goal of eliminating underfunding of the Fund and insuring a sound retirement for educational employees.

Projection Based on June 30, 2009 Actuarial Valuation with Change to Retirement Eligibility for Future New Hires (HB 573)

Projection Based on Preliminary 18.0% Gross Market Return for FYE 2010 minus Expenses

Projection Assumes 1.5% Annual Increase in Number of Active Members

Based on Changes in Contribution Rates for FYE 2010 and FYE 2011 (SB 91)

Valuation as of June 30,	Fiscal Year Ending June 30,	Market Return for FY Following Valuation Date	Employer Contribution Rate	Member Contribution Rate	Compensation at Valuation (in millions)	Employer Contribution (in millions)	Actuarial Accrued Liability (AAL, in millions)	Actuarial Value of Assets (VVA, in millions)	Unfunded Actuarial Liability, in (in millions)	Funded Ratio	GASB Annual Required Contribution (ARC)	Funding Period (Years)	Market Value of Assets (MVA, in millions)	Funded Ratio Using MVA
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
2009	2010	17.70%	10.90%	9.400%	\$ 2,772	\$ 302.1	\$ 13,883	\$ 9,366	\$ 4,517	67.5%	12.45%	45.0	\$ 7,114	51.2%
2010	2011	8.00%	10.90%	9.400%	2,865	312.4	14,528	9,320	5,208	64.2%	13.55%	67.0	8,126	55.9%
2011	2012	8.00%	13.15%	7.900%	2,981	392.1	15,266	9,346	5,920	61.2%	16.04%	66.6	8,391	56.3%
2012	2013	8.00%	13.90%	7.900%	3,105	431.6	16,015	9,254	6,761	57.8%	17.16%	70.2	9,077	56.7%
2013	2014	8.00%	13.90%	7.900%	3,236	449.9	16,774	9,451	7,322	56.3%	17.69%	94.3	9,587	57.2%
2014	2015	8.00%	13.90%	7.900%	3,377	469.4	17,541	10,099	7,442	57.6%	17.32%	75.7	10,099	57.69%
2015	2016	8.00%	13.90%	7.900%	3,527	490.2	18,315	10,611	7,704	57.9%	17.20%	71.7	10,611	57.99%
2016	2017	8.00%	13.90%	7.900%	3,687	512.5	19,100	11,128	7,972	58.3%	17.08%	67.8	11,128	58.3%
2017	2018	8.00%	13.90%	7.900%	3,858	536.2	19,897	11,652	8,246	58.6%	16.93%	64.1	11,652	58.69%
2018	2019	8.00%	13.90%	7.900%	4,041	561.6	20,709	12,184	8,525	58.8%	16.77%	60.5	12,184	58.89%
2019	2020	8.00%	13.90%	7.900%	4,235	588.7	21,537	12,730	8,808	59.1%	16.60%	57.1	12,730	59.1%
2020	2021	8.00%	13.90%	7.900%	4,443	617.6	22,386	13,292	9,095	59.4%	16.41%	53.9	13,292	59.49%
2021	2022	8.00%	13.90%	7.900%	4,664	648.3	23,259	13,875	9,384	59.7%	16.20%	50.8	13,875	59.79%
2022	2023	8.00%	13.90%	7.900%	4,899	681.0	24,160	14,485	9,674	60.0%	15.99%	48.0	14,485	60.0%
2023	2024	8.00%	13.90%	7.900%	5,148	715.6	25,093	15,128	9,965	60.3%	15.76%	45.3	15,128	60.3%
2024	2025	8.00%	13.90%	7.900%	5,412	752.3	26,065	15,810	10,255	60.7%	15.52%	42.7	15,810	60.7%
2025	2026	8.00%	13.90%	7.900%	5,691	791.0	27,079	16,537	10,542	61.1%	15.28%	40.3	16,537	61.1%
2026	2027	8.00%	13.90%	7.900%	5,984	831.8	28,142	17,317	10,825	61.5%	15.02%	38.1	17,317	61.59%
2027	2028	8.00%	13.90%	7.900%	6,295	875.0	29,259	18,158	11,101	62.1%	14.76%	35.9	18,158	62.19%
2028	2029	8.00%	13.90%	7.900%	6,623	920.6	30,436	19,067	11,369	62.6%	14.49%	33.9	19,067	62.69%
2029	2030	8.00%	13.90%	7.900%	6,968	968.5	31,679	20,053	11,626	63.3%	14.21%	32.0	20,053	63.3%
2030	2031	8.00%	13.90%	7.900%	7,332	1,019.1	32,993	21,128	11,870	64.0%	13.92%	30.1	21,128	64.09%
2031	2032	8.00%	13.90%	7.900%	7,716	1,072.5	34,385	22,286	12,098	64.8%	13.62%	28.4	22,286	64.89%
2032	2033	8.00%	13.90%	7.900%	8,123	1,129.1	35,860	23,553	12,307	65.7%	13.32%	26.6	23,553	65.79%
2033	2034	8.00%	13.90%	7.900%	8,553	1,188.9	37,426	24,934	12,492	66.6%	13.00%	25.0	24,934	66.69%
2034	2035	8.00%	13.90%	7.900%	9,007	1,252.0	39,092	26,442	12,650	67.6%	12.67%	23.4	26,442	67.69%
2035	2036	8.00%	13.90%	7.900%	9,491	1,315.3	40,872	28,096	12,776	68.7%	12.33%	21.8	28,096	68.79%
2036	2037	8.00%	13.90%	7.900%	10,002	1,390.3	42,780	29,915	12,865	69.9%	11.98%	20.3	29,915	69.99%
2037	2038	8.00%	13.90%	7.900%	10,544	1,465.7	44,833	31,922	12,911	71.2%	11.62%	18.9	31,922	71.29%
2038	2039	8.00%	13.90%	7.900%	11,117	1,545.3	47,047	34,139	12,908	72.6%	11.25%	17.5	34,139	72.69%
2039	2040	8.00%	13.90%	7.900%	11,719	1,628.9	49,435	36,587	12,848	74.0%	10.88%	16.1	36,587	74.09%

Projection assumes no actuarial gains and losses, other than from assets

Rate of growth for active membership

Educational Retirement Board of New Mexico

Projection Based on June 30, 2009 Actuarial Valuation with Change to Retirement Eligibility for Future New Hires (HB 573)

Projection Assumes 1.5% Annual Increase in Number of Active Members

Based on Changes in Contribution Rates for FYE 2010 and FYE 2011 (SB 91)

Valuation as of June 30,	Fiscal Year Ending June 30,	Market Return for FY Following Valuation Date	Employer Contribution Rate	Member Contribution Rate	Compensation (in millions)	Employer Contribution (in millions)	Accrued (AAL, in millions)	Accrued Value of Assets (AVA, in millions)	Unfunded Accrued Liability (UAL, in millions)	Funded Ratio	GASB Annual Required Contribution (ARC)	Funding Period (Years)	Market Value of Assets (MVA, in millions)	Funded Ratio Using MVA
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
2009	2010	18.30%	10.90%	9.400%	\$ 2,272	\$ 302.1	\$ 13,883	\$ 9,366	\$ 4,517	67.5%	12.45%	45.0	\$ 7,114	51.2%
2010	2011	8.00%	10.90%	9.400%	2,866	312.4	14,528	9,328	5,200	64.2%	13.53%	66.4	8,168	56.2%
2011	2012	8.00%	13.15%	7.900%	2,981	392.1	15,266	9,367	5,900	61.4%	16.00%	65.5	8,636	56.9%
2012	2013	8.00%	13.90%	7.900%	3,105	431.6	16,015	9,286	6,729	58.0%	17.10%	68.4	9,126	57.0%
2013	2014	8.00%	13.90%	7.900%	3,236	449.9	16,774	9,496	7,278	56.6%	17.58%	88.5	9,640	57.5%
2014	2015	8.00%	13.90%	7.900%	3,377	469.4	17,541	10,157	7,385	57.9%	17.22%	72.1	10,157	57.9%
2015	2016	8.00%	13.90%	7.900%	3,527	490.2	18,315	10,673	7,642	58.3%	17.10%	68.5	10,673	58.3%
2016	2017	8.00%	13.90%	7.900%	3,687	512.5	19,100	11,195	7,905	58.6%	16.97%	65.0	11,195	58.6%
2017	2018	8.00%	13.90%	7.900%	3,858	536.2	19,897	11,724	8,174	58.9%	16.82%	61.6	11,724	58.9%
2018	2019	8.00%	13.90%	7.900%	4,041	561.6	20,709	12,262	8,447	59.2%	16.66%	58.3	12,262	59.2%
2019	2020	8.00%	13.90%	7.900%	4,235	588.7	21,537	12,814	8,724	59.5%	16.48%	55.1	12,814	59.5%
2020	2021	8.00%	13.90%	7.900%	4,443	617.6	22,386	13,382	9,004	59.8%	16.29%	52.0	13,382	59.8%
2021	2022	8.00%	13.90%	7.900%	4,664	648.3	23,259	13,973	9,286	60.1%	16.08%	49.2	13,973	60.1%
2022	2023	8.00%	13.90%	7.900%	4,899	681.0	24,160	14,591	9,569	60.4%	15.86%	46.4	14,591	60.4%
2023	2024	8.00%	13.90%	7.900%	5,148	715.6	25,093	15,242	9,851	60.7%	15.63%	43.8	15,242	60.7%
2024	2025	8.00%	13.90%	7.900%	5,412	752.3	26,065	15,933	10,132	61.1%	15.39%	41.4	15,933	61.1%
2025	2026	8.00%	13.90%	7.900%	5,691	791.0	27,079	16,671	10,409	61.6%	15.14%	39.1	16,671	61.6%
2026	2027	8.00%	13.90%	7.900%	5,984	831.8	28,142	17,461	10,681	62.0%	14.88%	36.9	17,461	62.0%
2027	2028	8.00%	13.90%	7.900%	6,295	875.0	29,259	18,313	10,946	62.6%	14.62%	34.8	18,313	62.6%
2028	2029	8.00%	13.90%	7.900%	6,623	920.6	30,436	19,235	11,201	63.2%	14.34%	32.9	19,235	63.2%
2029	2030	8.00%	13.90%	7.900%	6,968	968.5	31,679	20,224	11,445	63.9%	14.06%	31.0	20,224	63.9%
2030	2031	8.00%	13.90%	7.900%	7,332	1,019.1	32,993	21,319	11,675	64.6%	13.76%	29.2	21,319	64.6%
2031	2032	8.00%	13.90%	7.900%	7,716	1,072.5	34,385	22,498	11,887	65.4%	13.47%	27.4	22,498	65.4%
2032	2033	8.00%	13.90%	7.900%	8,123	1,129.1	35,860	23,781	12,078	66.3%	13.15%	25.8	23,781	66.3%
2033	2034	8.00%	13.90%	7.900%	8,553	1,188.9	37,426	25,181	12,245	67.3%	12.83%	24.2	25,181	67.3%
2034	2035	8.00%	13.90%	7.900%	9,007	1,252.0	39,092	26,709	12,384	68.3%	12.59%	22.6	26,709	68.3%
2035	2036	8.00%	13.90%	7.900%	9,491	1,319.3	40,872	28,383	12,489	69.4%	12.15%	21.1	28,383	69.4%
2036	2037	8.00%	13.90%	7.900%	10,002	1,390.3	42,780	30,226	12,554	70.7%	11.80%	19.6	30,226	70.7%
2037	2038	8.00%	13.90%	7.900%	10,544	1,465.7	44,853	32,258	12,576	72.0%	11.44%	18.2	32,258	72.0%
2038	2039	8.00%	13.90%	7.900%	11,117	1,545.3	47,047	34,502	12,545	73.3%	11.06%	16.8	34,502	73.3%
2039	2040	8.00%	13.90%	7.900%	11,719	1,628.9	49,435	36,979	12,457	74.8%	10.68%	15.4	36,979	74.8%

Projection assumes no actuarial gains and losses, other than from assets

1.50%

Rate of growth for active membership

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Gabriel, Roeder, Smith & Company

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Educational Retirement Board of New Mexico

Projection Based on June 30, 2009 Actuarial Valuation with Change to Retirement Eligibility for Future New Hires (HB 573)
 Projection Based on Final 18.6% Gross Market Return for FYE 2010 minus Expenses
 Projection Assumes 1.5% Annual Increase in Number of Active Members
 Based on Changes in Contribution Rates for FYE 2010 and FYE 2011 (SB 91) and
 Proposed Delay of 0.75% of Employer Contribution Increase from FY 2012 to FY 2013

Valuation as of June 30, (1)	Fiscal Year Ending June 30 (2)	Market Return for FY Following Valuation Date (3)	Employer Contribution Rate (4)	Member Contribution Rate (5)	Compensation at Valuation (in millions) (6)	Employer Contribution (in millions) (7)	Actuarial Liability (AAL, in millions) (8)	Actuarial Value of Assets (AVA, in millions) (9)	Unfunded Actuarial Liability (UAL, in millions) (10)	Funded Ratio (11)	GASB Annual Required Contribution (ARC) (12)	Funding Period (Years) (13)	Market Value of Assets (MVA, in millions) (14)	Funded Ratio Using MVA (15)
2009	2010	18.30%	10.90%	9.400%	\$ 2,772	\$ 302.1	\$ 13,883	\$ 9,366	\$ 4,517	67.5%	12.45%	45.0	\$ 7,114	51.2%
2010	2011	8.00%	10.90%	9.400%	2,866	312.4	14,528	9,328	5,200	64.2%	13.53%	66.4	8,168	56.2%
2011	2012	8.00%	12.40%	7.900%	2,981	369.7	15,266	9,367	5,900	61.4%	16.00%	Infinite	8,636	56.6%
2012	2013	8.00%	13.15%	7.900%	3,105	408.3	16,015	9,265	6,752	57.8%	17.14%	Infinite	9,102	56.8%
2013	2014	8.00%	13.90%	7.900%	3,236	449.9	16,774	9,466	7,327	56.3%	17.67%	95.0	9,591	57.2%
2014	2015	8.00%	13.90%	7.900%	3,377	469.4	17,541	10,103	7,438	57.6%	17.31%	75.4	10,103	57.6%
2015	2016	8.00%	13.90%	7.900%	3,527	490.2	18,315	10,615	7,700	58.0%	17.20%	71.5	10,615	58.0%
2016	2017	8.00%	13.90%	7.900%	3,687	512.5	19,100	11,133	7,967	58.3%	17.07%	67.6	11,133	58.3%
2017	2018	8.00%	13.90%	7.900%	3,858	536.2	19,897	11,656	8,241	58.6%	16.92%	63.9	11,656	58.6%
2018	2019	8.00%	13.90%	7.900%	4,041	561.6	20,709	12,189	8,519	58.9%	16.76%	60.4	12,189	58.9%
2019	2020	8.00%	13.90%	7.900%	4,235	588.7	21,537	12,735	8,802	59.1%	16.59%	57.0	12,735	59.1%
2020	2021	8.00%	13.90%	7.900%	4,443	617.6	22,386	13,298	9,088	59.4%	16.40%	53.8	13,298	59.4%
2021	2022	8.00%	13.90%	7.900%	4,664	648.3	23,259	13,882	9,377	59.7%	16.19%	50.7	13,882	59.7%
2022	2023	8.00%	13.90%	7.900%	4,899	681.0	24,160	14,492	9,667	60.0%	15.98%	47.9	14,492	60.0%
2023	2024	8.00%	13.90%	7.900%	5,148	715.6	25,093	15,135	9,958	60.3%	15.75%	45.2	15,135	60.3%
2024	2025	8.00%	13.90%	7.900%	5,412	752.3	26,065	15,818	10,247	60.7%	15.51%	42.6	15,818	60.7%
2025	2026	8.00%	13.90%	7.900%	5,691	791.0	27,079	16,546	10,533	61.1%	15.27%	40.2	16,546	61.1%
2026	2027	8.00%	13.90%	7.900%	5,984	831.8	28,142	17,327	10,815	61.6%	15.01%	38.0	17,327	61.6%
2027	2028	8.00%	13.90%	7.900%	6,295	875.0	29,259	18,168	11,090	62.1%	14.75%	35.9	18,168	62.1%
2028	2029	8.00%	13.90%	7.900%	6,623	920.6	30,436	19,078	11,358	62.7%	14.48%	33.8	19,078	62.7%
2029	2030	8.00%	13.90%	7.900%	6,968	968.5	31,679	20,065	11,614	63.3%	14.20%	31.9	20,065	63.3%
2030	2031	8.00%	13.90%	7.900%	7,332	1,019.1	32,993	21,136	11,857	64.1%	13.91%	30.1	21,136	64.1%
2031	2032	8.00%	13.90%	7.900%	7,716	1,072.5	34,385	22,301	12,084	64.9%	13.61%	28.3	22,301	64.9%
2032	2033	8.00%	13.90%	7.900%	8,123	1,129.1	35,860	23,568	12,291	65.7%	13.30%	26.6	23,568	65.7%
2033	2034	8.00%	13.90%	7.900%	8,553	1,188.9	37,426	24,951	12,475	66.7%	12.99%	24.9	24,951	66.7%
2034	2035	8.00%	13.90%	7.900%	9,007	1,252.0	39,092	26,460	12,632	67.7%	12.66%	23.3	26,460	67.7%
2035	2036	8.00%	13.90%	7.900%	9,491	1,319.3	40,872	28,115	12,757	68.8%	12.32%	21.8	28,115	68.8%
2036	2037	8.00%	13.90%	7.900%	10,002	1,390.3	42,780	29,936	12,844	70.0%	11.97%	20.3	29,936	70.0%
2037	2038	8.00%	13.90%	7.900%	10,544	1,465.7	44,833	31,945	12,888	71.3%	11.61%	18.8	31,945	71.3%
2038	2039	8.00%	13.90%	7.900%	11,117	1,545.3	47,047	34,164	12,883	72.6%	11.24%	17.4	34,164	72.6%
2039	2040	8.00%	13.90%	7.900%	11,719	1,628.9	49,435	36,614	12,821	74.1%	10.86%	16.1	36,614	74.1%

1.50%

Rate of growth for active membership

Projection assumes no actuarial gains and losses, other than from assets

